

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Chavez Analyst: Jeff Garnier Bill Number: AB 967

Related Bills: See Legislative History Telephone: 845-5322 Amended Date: 4/21/03 & 6/2/03

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Conf to 2001 Fed Victims of Terrorism Relief Act/Disability Trust Credit/Est Tax Payment Computation/Correct Omission Of AMT/S Corp Election/Fed Election Shall Apply For State

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED
_____ STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY

This bill would:

- ◆ enhance the personal exemption credit for disability trusts;
- ◆ clarify the intentions of AB 1122 (Stats. 2002, Ch. 35) relating to S corporation status and estimated tax payments.

SUMMARY OF AMENDMENTS

The April 21, 2003, amendments would:

- ◆ allow a disability trust to claim a personal exemption credit in the same amount allowed to an individual, and
- ◆ make other technical changes.

The June 2, 2003, amendments clarify the operative date of the exemption credit for the disability trust and correct a reference to the Internal Revenue Code.

Board Position:

| | | |
|-----------------------------|------------------------------|---|
| <input type="checkbox"/> S | <input type="checkbox"/> NA | <input type="checkbox"/> NP |
| <input type="checkbox"/> SA | <input type="checkbox"/> O | <input type="checkbox"/> NAR |
| <input type="checkbox"/> N | <input type="checkbox"/> OUA | <input checked="" type="checkbox"/> PENDING |

Department Director
Gerald H. Goldberg

Date
6/9/03

EFFECTIVE/OPERATIVE DATE

The federal Victims of Terrorism Relief Act of 2001 provisions pertaining to a disability trust credit would apply to taxable years beginning on or after January 1, 2004.

The S corporation provisions of this bill would be effective and operative for taxable years beginning on or after January 1, 2004.

The provision relating to alternative minimum tax (AMT) included in the computation of estimated tax payments would be effective January 1, 2004, and operative for taxable years beginning on or after January 1, 2005.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Under the Victims of Terrorism Tax Relief Act of 2001 (Public Law 107-134), federal law expanded the exemption provided for members of the armed forces and federal civilian employees to include those who die as a result of wounds or injuries received in a terroristic or military action in the United States. The Victims of Terrorism Tax Relief Act also provided a deduction equal to the personal exemption deduction (\$3,000 for 2002) for certain disability trusts.

Current state tax law authorizes an exemption credit in the amount of \$10 for estates and \$1 for all trusts.

THIS BILL

This bill would increase the credit for disability trusts from \$1 to an amount equal to the personal exemption credit for single individuals. For the 2002 taxable year the single individual personal exemption credit was \$80. The credit is annually adjusted for inflation. It is not known at this time what the credit amount will be for the 2004 taxable year. This bill, in essence, would conform to the Victims of Terrorism Tax Relief Act provision allowing a personal exemption deduction to disability trusts by allowing the state equivalent personal exemption credit to disability trusts.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

SB 219 (Senate Revenue & Taxation Committee, Stats. 2002, Ch. 807) partially conformed to the Victims of Terrorism Tax Relief Act of 2001 and contained AB 1122 conformity clean-up.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. *Minnesota and New York* both adopted some aspects of the federal Victims of Terrorism Tax Relief Act of 2001; however, a disability trust credit was not found in the laws of those states. *Florida, Illinois, Massachusetts, and Michigan* have not specifically adopted the Victims of Terrorism Tax Relief Act.

These states were selected due to their similarities to California's economy, business entity types, population, and tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would have no impact on personal income tax and corporation tax revenues. This bill's clarification represents provisions that were previously accounted for in AB 1122.

The revenue loss from allowing a disability trust to claim a personal exemption credit in the same amount allowed to an individual is minor, less than \$50,000 annually, and was included in the revenue estimate for AB 219 (Senate Revenue & Taxation Committee, Stats. 2002, Ch. 807). The revenue associated with SB 219 was derived from federal estimates for the Victims of Terrorism Tax Relief Act.

LEGISLATIVE STAFF CONTACT

Jeff Garnier
Franchise Tax Board
845-5322
jeff.garnier@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
brian.putler@ftb.ca.gov